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# THE MASSACHUSETTS COLLEGE OPPORTUNITY PROGRAM

## *THE PURPOSE*

Under the economic conditions of the 1980's, many parents are concerned about paying for their children's college education. The cost of college education is rising. Until recently, parents could look forward to a firm partnership with the federal government, the Commonwealth and the colleges for the provision of funding for higher education. The Commonwealth, through support of state institutions of higher education and through its financial aid program, has substantially expanded its efforts to assure that all qualified students will have access to college. Schools have also made every effort to increase the availability of financial aid. Increasingly, however, the federal government is limiting its role, and college administrators find the financial aid dollar stretched even further. Families with some capacity to make a contribution to the costs of their children's higher education must be prepared to shoulder their responsibility. Loans are the only programs currently available to help families finance their contribution. Families need a way to plan and save for college. The Massachusetts College Opportunity Program is designed to assist families in financially preparing for college.

The Commonwealth recognizes the responsibility to help all parents save in the years before their children attend college. The future of Massachusetts' economy and even our social fabric depends upon our ability to make educational opportunity real. Helping parents save for college increases the opportunity to attend college for all Massachusetts citizens, encourages planning and lowers the cost of education.

1988
Governor's office of Educational Affairs

The College Opportunity Program was created to encourage saving, and to assist parents by giving them a reliable savings mechanism that will be sure to pay for college costs. The state hopes to create more savings by parents and to encourage families to think of the years before college attendance as a crucial time for financing higher education.

## *THE PROGRAM*

### HOW IT WORKS

- The Commonwealth annually reserves a portion of its General Obligation bonds for sale to families saving for higher education.
- Parents purchase the savings bonds for a named beneficiary to be redeemed in a designated year.
- On the face of the bond is printed the percentage of tuition the bond will pay, in the redemption year, at each participating Massachusetts institution.
- If the named beneficiary attends a participating Massachusetts institution, the bonds are redeemed at a rate that is guaranteed to pay at least the percentage of tuition stated for that college on the face of the bond.
- The bonds will earn interest at a variable rate equal to the rate of college cost inflation, as measured by the Independent College 500 (IC 500), an annual calculation of average increases in college costs that is issued by the College Board.

- Therefore, if the college chosen by the beneficiary has had tuition and fee increases that have been lower than the average measured by the IC 500, the redeemed bond will cover more than the stated percentage of tuition at that institution. If the college chosen by the beneficiary has had higher increases than the IC 500, the bond will still cover the predetermined percentage of tuition stated on its face.

## PROGRAM FEATURES

- Bonds will be issued in small denominations -- $50 and up.

- Bonds must be purchased in the name of a specific beneficiary, but are transferable within the immediate family.

- The named beneficiary must be a Massachusetts resident at the time of purchase.

- Bonds may be redeemed at maturity for purposes other than college tuition, for cash equal to its then principal amount less an appropriate discount to reflect the cost to the Commonwealth.

- Bonds may be redeemed to cover costs at non-participating colleges, at an amount to be determined by the Commonwealth.

- The interest earned on these bonds will be exempt from federal and state taxation.

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# MASSACHUSETTS COLLEGE OPPORTUNITY FUND

Q. When I buy bonds from the College Opportunity Fund, whose name appears on the bond?

A. Each bond has a named beneficiary, and you designate the beneficiary at the time of purchase.

Q. Can I transfer the bonds to anyone else?

A. Bonds are transferable within the immediate family.

Q. Do you have to be a Massachusetts resident to buy bonds?

A. No, but the named beneficiary must be a Massachusetts resident at the time of the purchase.

Q. How much will it cost to participate in the program?

A. Bonds will be issued in small denominations, possibly as small as $50, to enable parents to establish a savings schedule that meets their family's needs.

Q. I understand that when I buy the bond, on the face of it I will see the percentage of a year's tuition and fees that the bond will buy at each participating Massachusetts college. How can I be sure that the bond will actually buy that much tuition when the time comes for my child to attend college?

A. Each college that joins this program will guarantee to deliver <u>at least</u> the percentage of tuition stated on the face of the bond, when you redeem it in a given year -- a year chosen by you when you buy the bond. The college can do this because the Commonwealth of Massachusetts guarantees that it will pay an interest rate on the bond that is tied to the average rate of increase in college costs. In addition, when you purchase the bond, you pay a premium (probably between 1% and 1.5% per year) that, in effect, "purchases" this guarantee.

Q. If the college guarantees to deliver "at least" the stated amount of tuition, under what circumstances will I get more than the stated amount?

A. The rate of interest paid by the state is linked to the average increase in college costs. If the college your child chooses has increased tuition at a rate lower than the average college, then your bond will buy more tuition at that college. If the chosen college has increased tuition at a rate that is higher than average, you will still receive the percentage of tuition that is stated on the face of the bond for that college.

Q. What if my child decides not to go to college?

A. Bonds may be redeemed for purposes other than tuition, but the interest rate paid on the bond will be lower than if it had been used for tuition.

Q. What if my child attends a college that is not a participant in this program?

A. Again, if you redeem the bond to use at a non-participating college, you will receive an interest rate that is lower than that paid when redeemed at participating colleges.

Q. Will I have to pay taxes on the money I earn through these bonds?

A. The bonds as issued by the Commonwealth of Massachusetts are tax-exempt. You will have no tax liability on the money you earn toward tuition in this program.

Q. How can I find out more about the program?

A. Call Governor Dukakis' office at (617) 727-0770, and you will be sent a description of the program. Legislation to implement the program is being drafted now, and announcements will be made through newspapers, radio and television when the bonds are available for sale.